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## France: after crisis, before Brexit – eroding influence?

**Abstract:** In this paper, two topics are discussed which also explains its structure. Following a short introduction about traditions of state intervention in economy, we first try to understand the reasons behind the fact that the French economy, while having done quite well during the most difficult period of global financial crisis, has since then been unable to head off to the path of sound economic growth again. The second topic derives from the first one: in contrast to France's weak performance, German economy is flourishing, at least by European standards, which on the long-run can lead to fundamental changes in balance of power within the European Union, especially between France and Germany.

**Keywords:** France, Germany, economic performance, balance of power

### Introduction

Like about many other countries having a significant impact on world development, also about France there are certain beliefs and prejudices which have developed throughout history and become so deeply ingrained in collective consciousness that questioning them could lead to arguments even in scientific discussion. One such stereotype relates to the role of the state in economy and says that France *“is a capitalistic country with a socialist outlook”*.<sup>1</sup> This means that although in everyday practice the French believe in market and economic fundamentals of capitalism, they do not necessarily trust the self-correcting capacity of the market and, therefore, consider it important for the state to interfere in the economy. Like all stereotypes, also this one is based on a morsel of truth, and while it might have been true for centuries or even just a few decades ago, it has fundamentally changed by now.

In terms of tradition of state's economic intervention, France had already been quite centralized in the 15th century, and the centralization of resources was further intensified by the establishment of absolutism and Colbert's mercantilism. Ever since the nomination of Sully for finance minister (to Henry IV.), the incumbent government of France have nurtured close links with businesses, and this relationship has traditionally been marked by state interventionism.<sup>2</sup> Accordingly, and contrary to the general European (e.g. British or German) practice where the economic role of the state has changed based on the political winds, favouring 'big government' has become a permanent feature of French capitalism.<sup>3</sup>

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<sup>1</sup> S. Pendergast and T. Pendergast, *Worldmark Encyclopedia of National Economies Volume 4 – Europe*, Detroit, Gale Group/Thomson Learning, 2002, p. 144.

<sup>2</sup> F. Chevallier, *Les entreprises publiques en France* [State owned enterprises in France], La documentation française, 1979, p. 16.

<sup>3</sup> C. Meisel, 'The Role of State History on Current European Union Economic Policies', *Towson University Journal of International Affairs*, Fall Issue, vol. XLVII., no. 1, 2014, p. 81.

The emergence and evolution of this tradition cannot, however, be understood as a simple linear development. Resource-centralization cannot be identified as an exclusive perversion of the French, or a process of common consent of the people of France. As an illustration, we can mention that indirect taxes on colonial goods (sugar, coffee, tobacco, calico) as from the second half of the 17th century made these goods so much prohibitive that the fast strengthening of black economy (in the form of tax evasion and smuggling) was an inevitable consequence. In an attempt to roll back the growing underground, the efficiency of the General Farm (*Ferme générale*), the then largest paramilitary force in Europe, had been boosted by scaling it up to some twenty thousand guards and a brutal hardening of the penal code against smuggling, encompassing punishments out of proportion to the crime committed.<sup>4</sup>

According to recent research, widespread dissatisfaction about government policy trying to regulate the consumption of colonial goods – first, by introducing heavy taxes on them, then, when this led to large-scale smuggling, by punishing people cruelly – was one of the most important reasons for the outbreak of the French Revolution. In this respect, it is revealing that the revolution itself did not begin with the storming of the Bastille on 14 July 1789. Three days earlier, a mob of professional and part-time smugglers, tradesmen, craftsmen, workers, and unemployed attacked and sacked the circa 40 customs gates encircling Paris which had been set up in the 1780s to break down the illegal wine and tobacco trade.<sup>5</sup>

In spite of their dissatisfaction with tax policy, French revolutionaries mostly blamed the aristocracy and the Catholic Church for the country's economic woes rather than the widely respected public servants. And here we come to the fundamental characteristics of French capitalism in terms of the state's economic involvement, which can be summed up in two points. The first one comes from the traditional esteem for state officials and manifests itself in the fact that senior administrators of the so-called Grand Corps – powerful public bodies, special features of the French State initiated by Colbert, but having been given their modern form under Napoléon I. – are more permanent in their job than ministers, thus ensuring a certain degree of continuity in economic policy. The second point is of historical origin and is linked to the Revolution in that people have the right to happiness, liberty or fair (equal) treatment.<sup>6</sup>

If anything, then the special French interpretation of public service is what explains why the belief in state intervention is still high. According to the French legal interpretation, public services should be governed by constitutional principles such as continuity (which means uninterrupted service, as there is a strategic social need to satisfy), equality (i.e. equal access

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<sup>4</sup> M. Kwass, M., 'Global Underground: Smuggling, Rebellion, and the Origins of the French Revolution' in: Desan, S., Hunt, L., & Nelson, W. M. (eds.) *The French Revolution in Global Perspective*. Cornell University Press, Ithaca & London 2013, pp. 27/28.

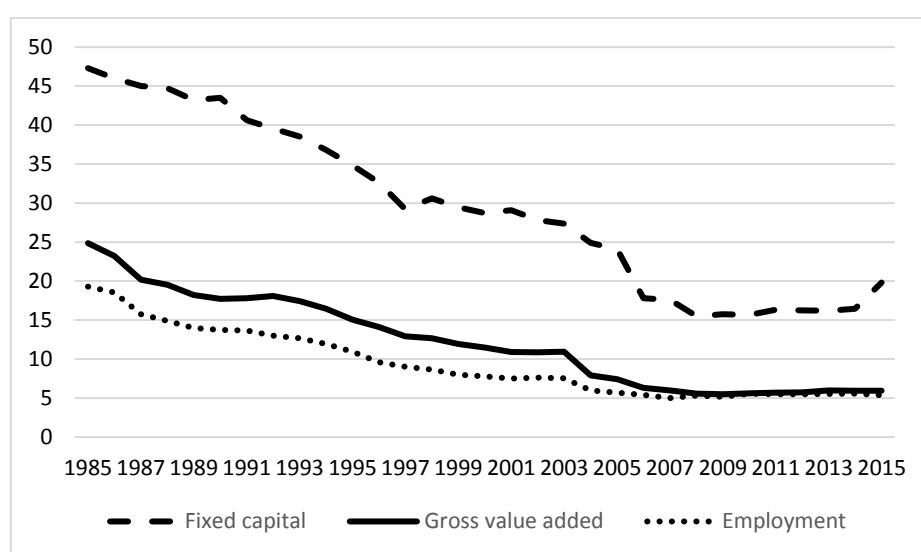
<sup>5</sup> Ibid.

<sup>6</sup> S.C. Kolm, 'History of public economics: The historical French school', *The European Journal of the History of Economic Thought*, vol. 17, no. 4, 2010, p. 690.

to service which implies different tariffs for different social strata and geographical areas), and mutability/adaptability (ensuring services are constantly adapted to demand, both in quantity and quality).<sup>7</sup> By this conception, the ultimate goal of public service provision is to serve the broad public interest, including to enhance social and territorial cohesion.<sup>8</sup>

However, even the French could not free themselves from the influence of the neoliberal economic philosophy during the last more than three decades. As a result of successive privatization waves since the shift in economic policy in 1983, the weight of public ownership, constituting the main capability for state intervention, has decreased significantly (Figure 1).

**Figure 1. Changing importance of the public sector in French economy (1985-2015), %**



Source: INSEE, 'Entreprises publiques' [State owned enterprises] *Tableaux de l'économie française, Édition 2018*  
<https://www.insee.fr/fr/statistiques/3303570?sommaire=3353488> [2018-06-26]

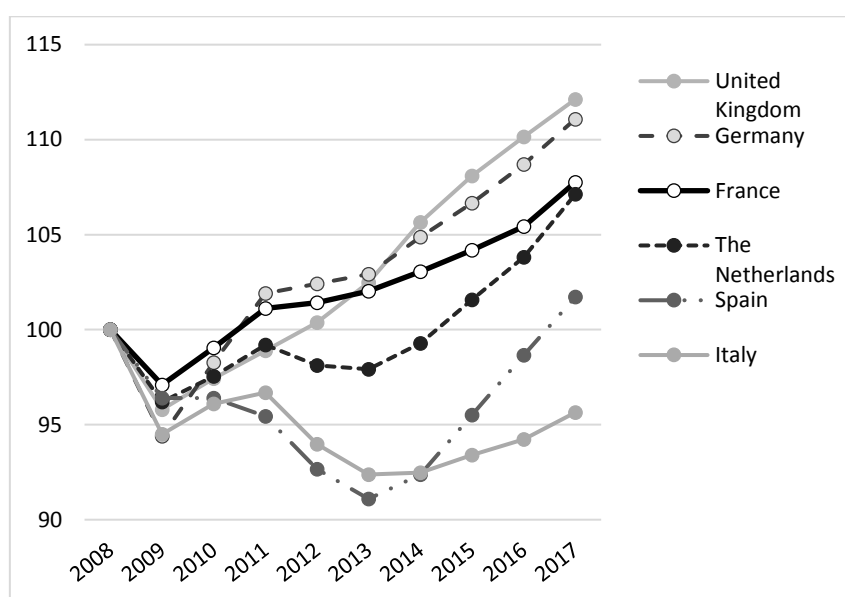
## 1. The French economy and the crisis

The 2008 global financial crisis has led to a much smaller slowdown in growth in France than its most important European competitors. In 2009, real GDP fell by a mere 2.9 percent, against 4.2 percent in the United Kingdom, 5.5 in Italy, and 5.6 in Germany. Even the relatively smaller economies of Spain or the Netherlands experienced more significant decline (-3.6% for each) than that of France (Figure 2).

<sup>7</sup> E. Brillet, *Le service public 'à la française': un mythe national au prisme de l'Europe* [Public service 'à la française': a national myth through European prism], *L'économie politique*, no. 4, 2004, p. 10.

<sup>8</sup> P. Musso, 'La dérégulation des télécommunications ou «la finance high-tech»' [Deregulation in telecoms or high-tech finances], in: D. Benamrane, B. Jaffré, F-X Verschave (coord) *Télécommunications, entre bien public et marchandises* [Telecoms : public good or merchandise?], Paris : ECLM, vol 148, 2005, p. 104.

**Figure 2. Cumulative GDP growth in EU's largest economies (2007 = 100)**



Source: Eurostat, 'Real GDP growth rate – volume, Percentage change on previous year'  
<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>  
 [2018-06-27]

The relatively good resilience of the French economy was mainly due to the fact that the banking system – thanks to its regulatory and structural characteristics – had not been exposed to extreme shocks from the international financial markets. Following the neo-liberal shift in 1983 and the subsequent waves of privatization, commercial banks could appear on the stock exchange, while financial institutions could turn their core business into a profitable direction and become universal banks. It is not the transformation itself that matters, but the way it had been carried out. As a result of privatization process, centred on a handful of national champion banks, a system of financial institutions and big corporations from other sectors of the economy has been created, which were interconnected with each other in a complex though short-lived cross-shareholding networks. What proved to be more permanent and therefore decisive was the fact that members of the boards of directors and supervisory boards of this system were senior officials with similar 'cultural' backgrounds (i.e. with similar career path), having completed their studies at the same French elite universities (HEC, ENA, Polytechnique) and gained professional experience in various positions of the same large bodies (e.g. ministry of finance or banking supervision) of the French administration.<sup>9</sup>

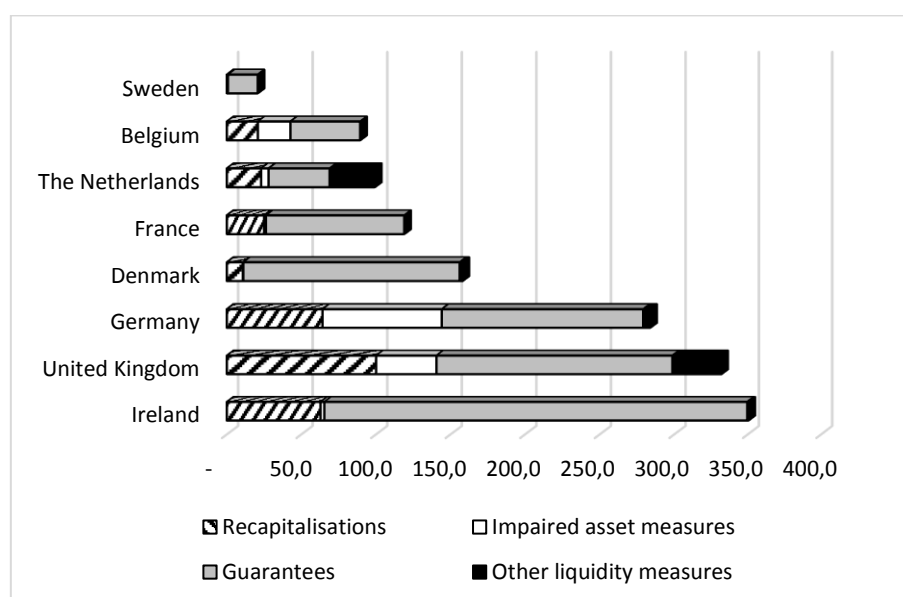
The common socialization background prevented bank managers from venturing in overly risky transactions, or, more precisely, from extremely risky investments gaining too much importance in the activities of the organizations they managed. Unlike German and British banks, specializing mostly in investment banking and corporate lending, French banks used

<sup>9</sup> V. Schmidt, 'French capitalism transformed, yet still a third variety of capitalism', *Economy and Society*, vol. 32, no. 4, 2003, p. 542.

financial liberalization to broaden the scope of their activities towards relatively less risky retail banking area, both at home and in Southern Europe, considered to be their second homeland.<sup>10</sup> Similar moderation could also be observed in relation to derivatives, as French banks specialized in equity, interest and exchange rate derivatives, rather than more risky credit derivatives.<sup>11</sup>

Prudent banking management has paid off during the global financial crisis, given that the French had to spend relatively little money (and most of it in the early years of the crisis) on saving their banks. Figures 3, 4 and 5 show the absolute and relative magnitude of state aid granted to the financial sector over the 7-year period from 2008 to 2014. We have tried to compare allegedly dirigiste France with those member states of the EU where liberal economic policy dominates. It is already apparent from Figure 3, showing the absolute values, that France is outpaced by far smaller economies (Ireland, Denmark), and even Belgium or the Netherlands, countries with respectively less than a fifth or a third of the GDP of France, did not spend much less on bailing out their banks than France did.

**Figure 3. State aid effectively spent on rescuing banks from 2008 to 2014 (€ Bn)**



Source: Own calculation based on European Commission, DG Competition, 'Aid in the context of financial and economic crisis' *State Aid Scoreboard 2015*

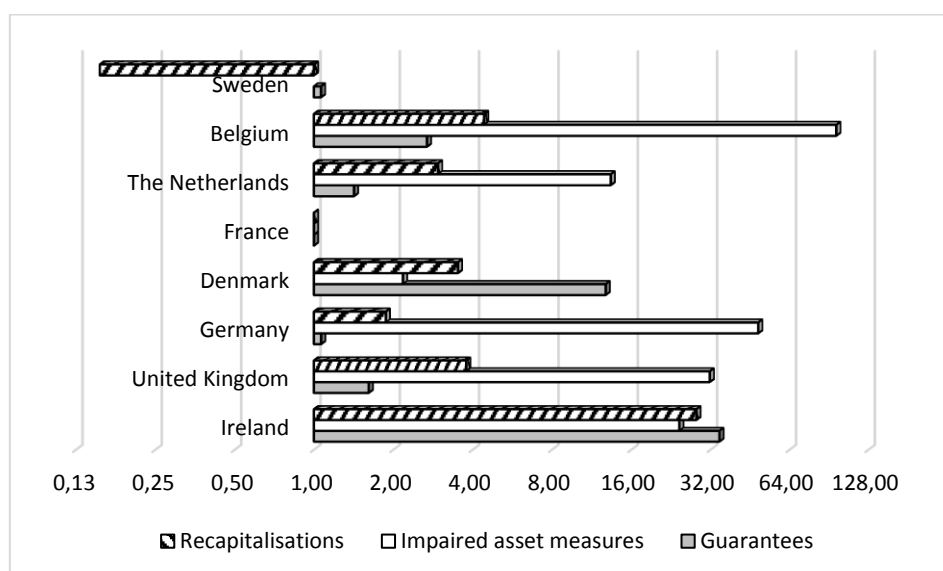
[http://ec.europa.eu/competition/state\\_aid/scoreboard/financial\\_economic\\_crisis\\_aid\\_en.html](http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html) [2016-04-30]

<sup>10</sup> I. Hardie, D. Howarth, 'Die Krise but not La Crise? The financial crisis and the transformation of German and French banking systems', *Journal of Common Market Studies*, vol. 47, No. 5, 2009, p. 1020.

<sup>11</sup> D. Howarth, 'The Legacy of State-led Finance in France and the Rise of Gallic Market-Based Banking', *Governance*, vol. 26, no. 3, 2013, p. 376.

For the sake of better comparability, Figure 4 shows how significant the amount of the various types of state aid (each country granted to its banks) was in comparison to French data, taking into account the countries' economic performance (GDP). Now, it is definitely true that 'dirigiste' France, with the only exception of Sweden, has spent much less on rescuing banks than the so-called liberal member states. On recapitalisations, most 'liberal' countries have spent about three to four times (even Germany spending almost twice) as much money as France. On the treatment of impaired assets, the British spent more than 30 times, the Germans almost 50 times, the Belgians almost 100 times more than the French did, always taking into account their economic size. As for guarantees, data for the UK and the Netherlands are one and a half times, for Belgium two and a half times, for Denmark 13 times, and for Finland 35 times higher than data for France.

**Figure 4. Relative size of state aid effectively spent on rescuing banks from 2008 to 2014**  
(the data for France compared to French GDP = 1)



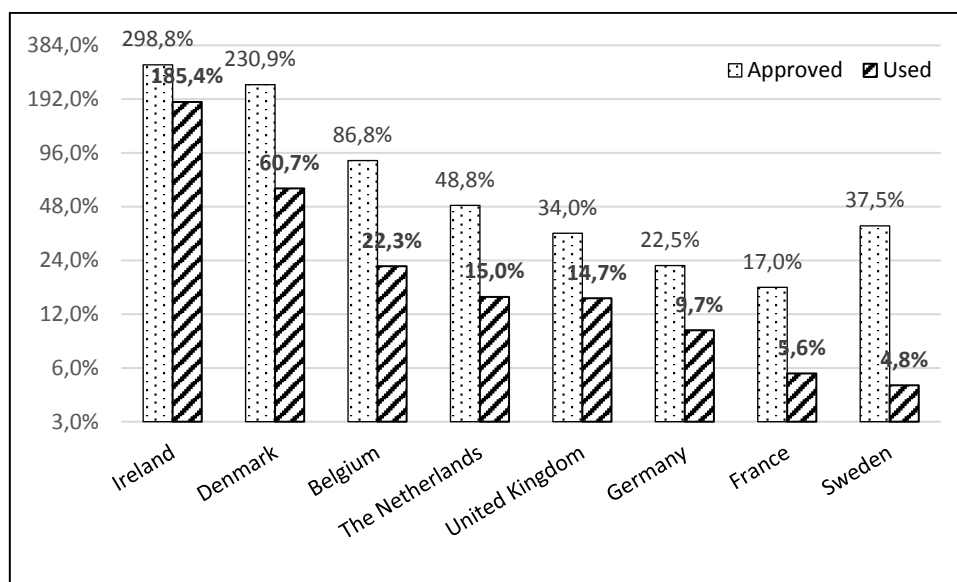
Source: Own calculation based on European Commission, DG Competition, 'Aid in the context of financial and economic crisis' *State Aid Scoreboard 2015*

[http://ec.europa.eu/competition/state\\_aid/scoreboard/financial\\_economic\\_crisis\\_aid\\_en.html](http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html) [2016-04-30]

Example: UK's GDP is 1.06 times of that of France's, while it spent on recapitalisations of their banks four times more money than France did. So, it spent  $(4/1.06=)$  3.78 times more, taking into account its economic size.

Finally, in Figure 5, we compared the approved and used state aids to GDP. The French spent € 119 billion or 5.6% of their GDP to bail out their banks, a rather low ratio compared with those of the 'liberal' countries. Effectively, only the Swedes spent less than the French. GDP-wise, the Germans spent more than 1.7 times, the British and Dutch more than 2.6 times, the Belgians four times, the Danish 11 times, and the Irish 33 times more than the French.

**Figure 5. State aid effectively spent on rescuing banks from 2008 to 2014  
(as a percentage of GDP)**



Source: Own calculation based on European Commission, DG Competition, 'Aid in the context of financial and economic crisis' *State Aid Scoreboard 2015*

[http://ec.europa.eu/competition/state\\_aid/scoreboard/financial\\_economic\\_crisis\\_aid\\_en.html](http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html) [2016-04-30]

Eventually, the cost of state aid granted to French financial sector in connection with the global financial crisis remained at a relatively acceptable level, at least in international comparison or in taxpayers' eyes. On the other hand, because of the relatively small decline in growth, constraints on structural change in economy were also weaker in France than in many of its competitors. This delay in structural reforms, in turn, most probably played a role in that – after a relatively fast recovery from the relatively small recession in 2009 – the French economy has found itself on a slower growth trajectory than some of its main partners have. Especially, the diverging trend in economic development of the two most important members of the Eurozone (i.e. Germany and France) may cause concerns.

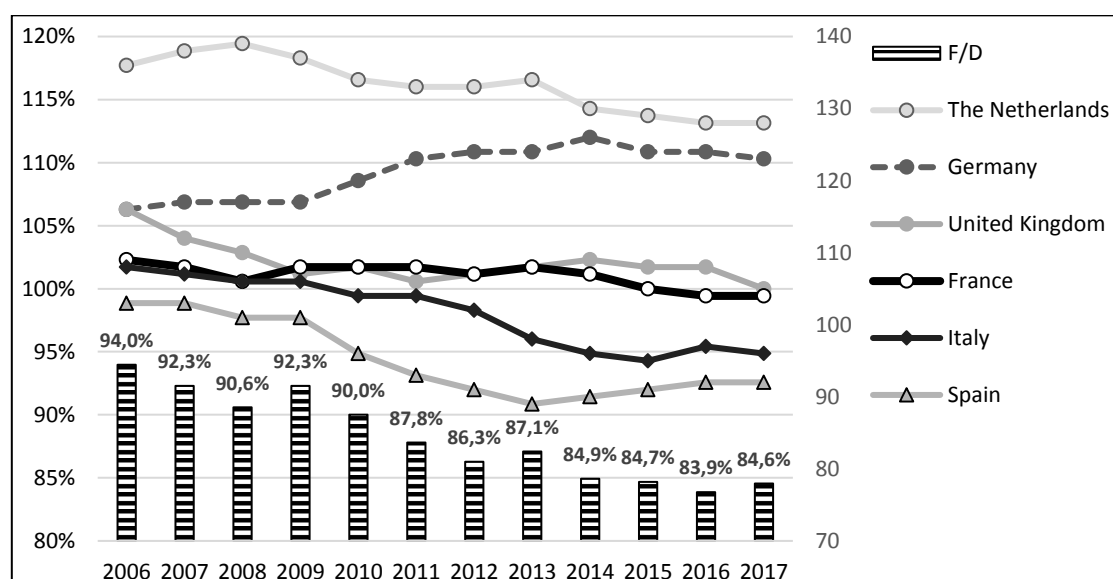
## **2. Doomed to lag behind Germany?**

For many, the history of the European integration is the story of the ever-tightening Franco-German relationship. Many tend to speak of Paris-Berlin axis and consider the governments of these two countries as the engine of the EU: when their relationship is good and balanced, the integration process would accelerate; when problems prevail, it would slow down. But, without the consent of both of them, there can be no meaningful reform in Europe.

Based on the above, there is an assumption that the two countries can cooperate well when they are in the same ‘weight group’. In GDP terms, the two countries have never been in the same ‘weight group’ for the last 50 years. But while this postwar difference had been ‘balanced’ partly by the division of the German nation, and partly by the French military-political superiority (permanent membership in UN Security Council, possession of nuclear arsenal), the situation changed radically with the German reunification. Once the Cold War was over, the importance of France’s military-political advantage has declined, while that of Germany’s economic advantage – due to both a quarter more population and two times more exports than France – has gained in importance. Although for eleven years in a row, from 1995 through 2005, France’s economic growth rate exceeded that of Germany every single year (by bringing down the ratio of German and French GDP from 1.4 to 1.26), this trend has, since 2006, been totally reversed (up to a ratio of 1.34 by 2016).<sup>12</sup> In addition, due to differences of demographic tendencies in the two countries, France’s lagging behind Germany is even more evident in terms of per capita output (Figure 6).

**Figure 6. GDP per capita in PPS from 2006 to 2017**

(EU28 = 100)



Source: Own calculation based on Eurostat, ‘GDP per capita in PPS’ Index (EU28 = 100)

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>  
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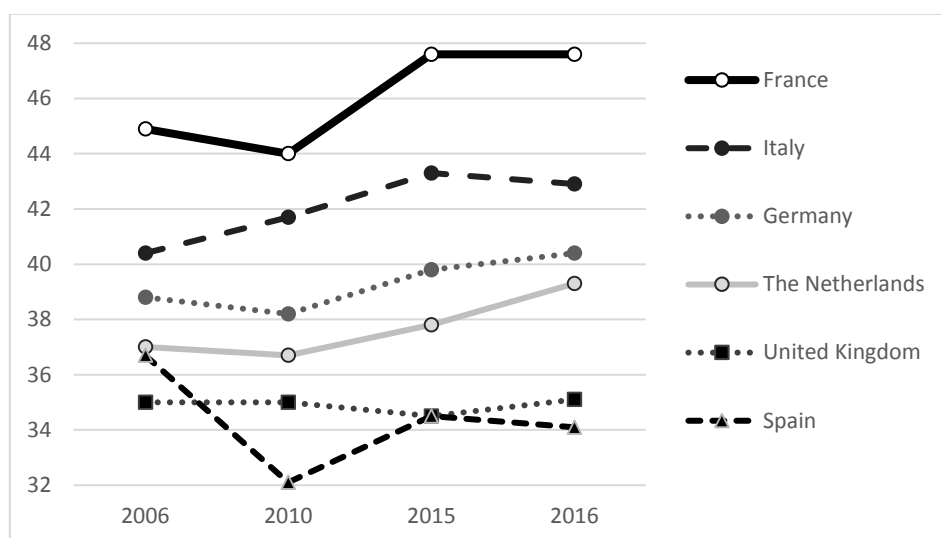
<sup>12</sup> USDA ERS (United States Department of Agriculture – Economic Research Service), ‘International Macroeconomic Data Set’, *Real GDP (2010 dollar) Historical* <https://www.ers.usda.gov/data-products/international-macroeconomic-data-set/international-macroeconomic-data-set/#Historical%20Data%20Files> [2018-07-01]



Many fear that this trend will be permanent and that breakdown of the balance of power between France and Germany will ultimately be detrimental to the European integration. Concerns are further enhanced by the fact that while Germany successfully implemented structural labour market (so-called Hartz) reforms in the early 2000s, in France such reforms have only recently (under Macron's presidency) been initiated, and with restrained content.

The situation is further exacerbated – and the economic policy path to follow by the French government is further narrowed – by the country's equilibrium problems. As a result of the global financial crisis, France was among the first, within the Euro zone, to undergo an excessive deficit procedure, and is among the last – to be precise, the last but one (before Spain) – for which the procedure is now being closed.<sup>13</sup>

**Figure 7. Total tax revenues from taxes and social contributions**  
(as % of GDP)



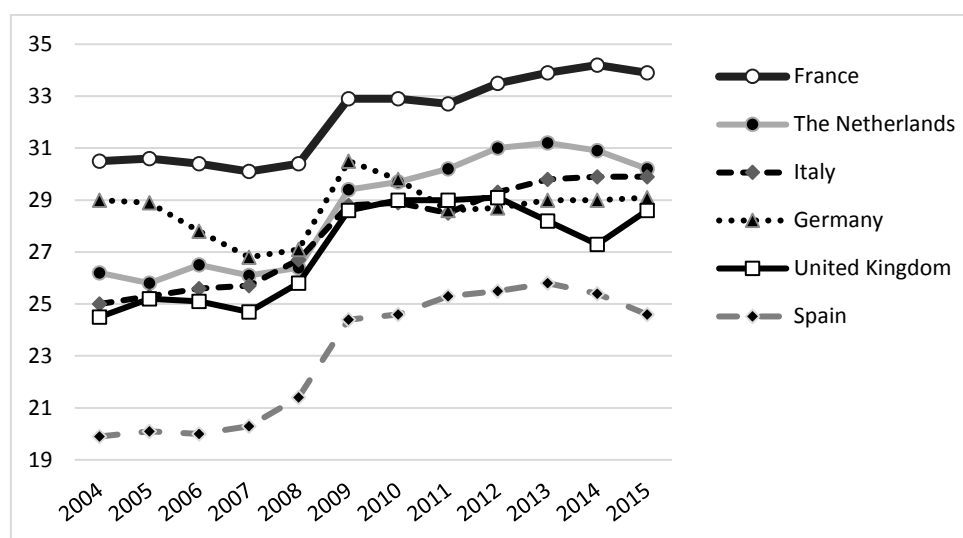
Source: Own compilation based on Eurostat, 'The tax-to-GDP ratio slightly up in both the EU and the euro area' Newsrelease 187/2017 <http://ec.europa.eu/eurostat/documents/2995521/8515992/2-07122017-BP-EN.pdf/0326ff22-080e-4542-863f-b2a3d736b6ab> [2018-07-03]

France's struggling with solving the problem of macroeconomic imbalances has its origin in the fact that the country is among European leaders in the field of centralization of incomes

<sup>13</sup> For the first time, it was on 27 April 2009 that the Council set a date for bringing the general government deficit below 3 percent of GDP, naming the year 2012 as a deadline. The latter has, since then, been changed three times (naming 2013, 2015, and 2017 as new deadlines), given the slow recovery of the French economy. Finally, as French deficit went down to 2.6 percent of GDP in 2017, on 22 June 2018 the Council closed the excessive deficit procedure for France. Source: European Commission, 'Excessive deficit procedures – overview' Most recent decisions and updates, [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview_en) [2018-07-01]

and expenditure on social protection (Figure 7, 8). An economic research institute which is close to the employer's side (with a board of directors coming from large banks, MEDEF, and large corporations) found that the comparatively high tax-to-GDP ratio (i.e. sum of taxes and net social contributions as a percentage of GDP) played an important role in France's share in Eurozone exports falling from 17 to 13.4 percent between 2000 and 2015.<sup>14</sup>

**Figure 8. Expenditure on social protection**  
(as % of GDP)



Eurostat, 'Expenditure on social protection – % of GDP' *Social protection*,  
<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tps00098&plugin=1>  
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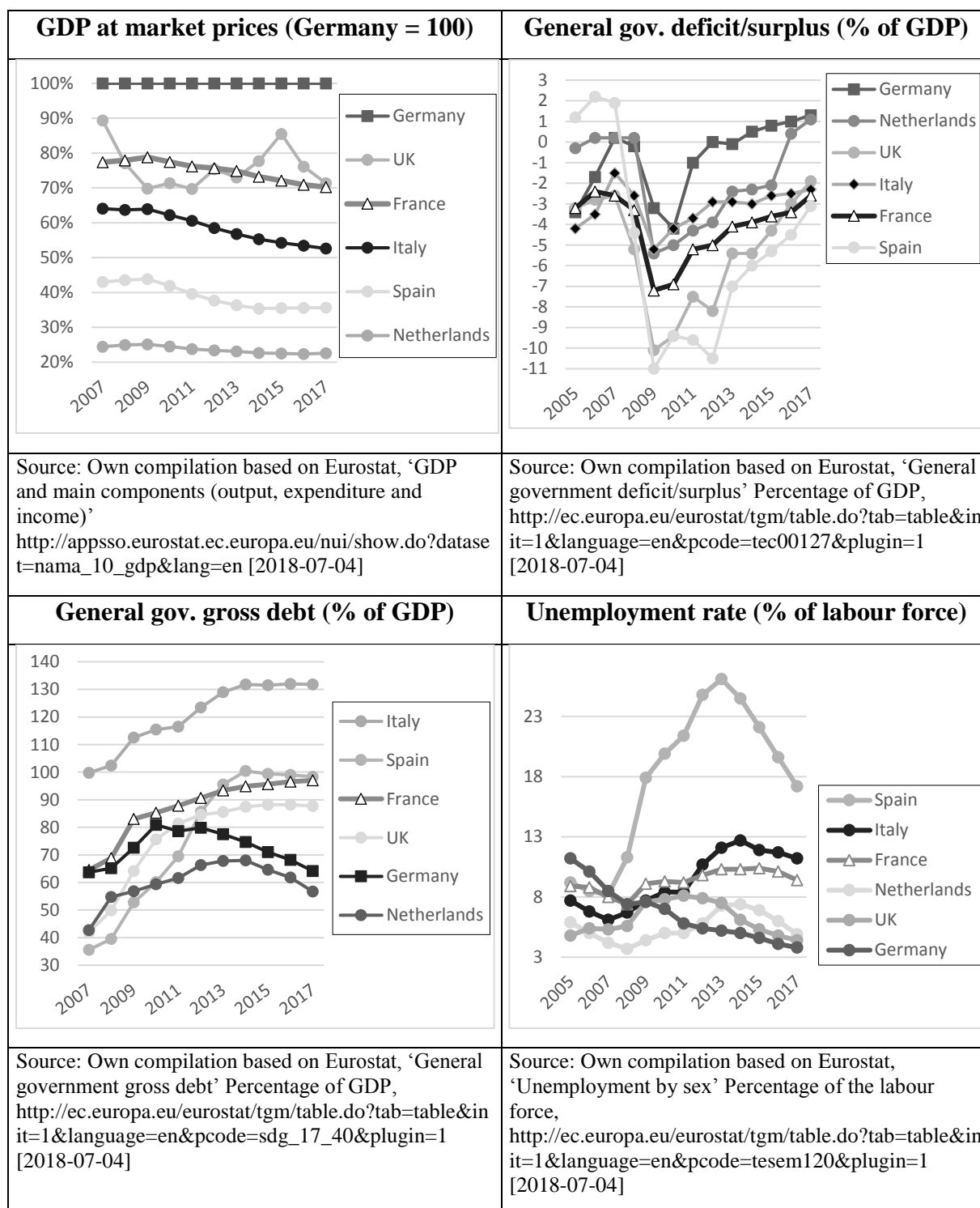
In 'defence' of the French situation, two remarks should here be made. First, although in France relatively much money is centralized, a significant part of it is, at least, spent on human capital. In this way, while wages paid to full-time employees in industry, construction and market services are higher in Germany, when it comes to disposable income of households per capita in PPS (i.e. money available for spending and saving, a better proxy for standard of living than earnings), France ranks third in Europe, slightly ahead of Germany, and preceded only by Luxemburg and Austria.<sup>15</sup> Moreover, in the mid-2010s, the proportion of people living

<sup>14</sup> Coe-Rexecode, 'Perspectives 2017 et analyse des freins qui brident le redémarrage de l'économie française' [Outlook 2017 and analysis of the brakes that are holding back the recovery of the French economy.] *Document de travail*, no. 60, Septembre 2016, pp. 3-5.

<sup>15</sup> INSEE, 'France, portrait social – Édition 2017' [France, social portrait – 2017 edition] <https://www.insee.fr/fr/information/3280892> [2018-07-03] p. 226

at risk of poverty (i.e. below 60 percent of median income after social transfers) was by several percentage points lower in France (13.6%), than in Germany (16.7%).<sup>16</sup>

Figures 9-12.



<sup>16</sup> M. Dancer, 'L'Allemagne, un modèle économique inimitable pour la France' [Germany – an economic model France cannot copy] La Croix, 02 October 2017 <https://www.la-croix.com/Economie/Economie-et-entreprises/LAllemagne-modele-economique-inimitable-France-2017-10-02-1200881273> [2017-12-03]

As regards the other remark concerning the French economy, it is to be noted that this country's situation is not at all unique within the European Union. From figures 9 to 12 it is clear that, in the economic competition, not only France, but – apart from the Netherlands – practically all the major economies of Europe are lagging behind Germany. Moreover, France is not in the worst position: Italy and Spain make it even worse.

If, within an integration, development and healthy economic indicators are concentrated on just a few countries, while the majority of members is constantly underperforming both this minority's and their own earlier achievements, it is possible that the blame for this should not only be put on those lagging behind. Particularly instructive are 2016 regional statistics on unemployment which show that – except for Germany and countries/regions closely linked to the German economy (e.g. Austria, the Benelux, or Bratislava Region) – unemployment is below 6.5 percent almost exclusively in the regions of those countries (e.g. in Scandinavia, the British Isles, Switzerland and Central and East European countries) where the euro has not yet been introduced. Of course, the two groups of countries (those with German orientation and those being outside the Eurozone) may overlap (e.g. in the case of Switzerland or Czechia).<sup>17</sup> Apparently, the common currency is too strong for the peripheral economies (France included), and too weak for Germany and its affiliated economies. If there is any doubt about the truth of this statement, we can consider the following.

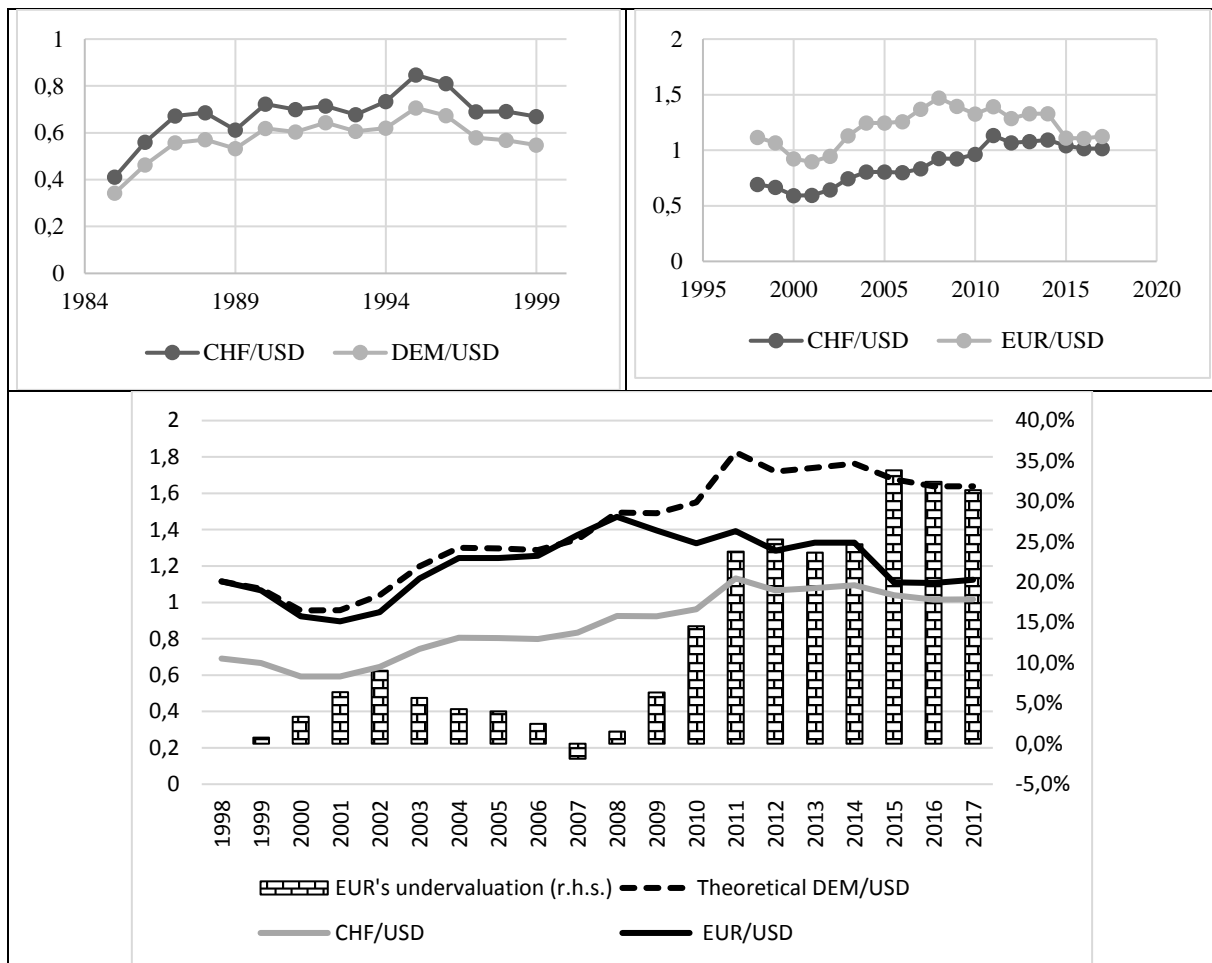
From figures 13 to 15 it can be observed that, in the period of 1985-1999, the German mark and the Swiss franc tended to move in parallel against the US dollar. There was, however, no parallelism in the move of the exchange rate of the Swiss franc and the euro against the dollar from 1998 to 2017. In the latter period, the franc has tended to become stronger, while the euro, following a temporary strengthening, ended up in the same position from where it started. Assuming the euro and the Eurozone had not been created, and the German mark and the Swiss franc had been moving parallel against the dollar in 1998-2017 (like they did in 1985-1999), German national currency would be 30 percent stronger than actually is. This would obviously have a negative impact on German exports' competitiveness.<sup>18</sup>

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<sup>17</sup> Another characteristic feature is that, while, in 2016, 7 of the 10 regions with the lowest unemployment rates in Europe (9 in the 15-24 age group) were located in Germany, one could only find Spanish, Greek, French and (in the 15-24 age group also) Italian regions among the top 10 with the highest rates. Source: Eurostat, 'Unemployment in the EU regions in 2016', *Newsrelease*, 72/2017, pp. 1-2., <http://ec.europa.eu/eurostat/documents/2995521/8008016/1-27042017-AP-EN.pdf> [2017-12-03]

<sup>18</sup> It is no wonder that for the 3-year backward moving average of the current account balance (as percent of GDP) – one of the headline indicators covering the most relevant areas of the so-called EU's macroeconomic imbalance procedure scoreboard, and for which there is an asymmetry in thresholds (-4%/+6%) which favours Germany – the latter has, since 2012, been unable to comply with EU rules. What's more, the indicator is trending upward: 6.2% in 2012; 6.6% in 2013; 7.1% in 2014; 7.7% in 2015; 8.3% in 2016; and 8.5% in 2017. Source: Eurostat, 'Current account balance – 3 year average' *Percentage of GDP*, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tipsbp10&tableSelection=1> [2018-07-05]

Figures 13-15.



Source: Own compilation based on FXTOP, 'Historical exchange rates from 1953 with graph and charts' <http://fxtop.com/en/historical-exchange-rates.php> [2017-11-26]

Of course, we do not pretend to believe that the countries of the EU's periphery (including France) should not introduce economic policy reforms, for example, to improve public spending or make the labour market more flexible. It should, however, be noted that the German economy, which was already quite competitive in itself, has been given further impetus by the undervalued single currency, which in turn has unequivocally detrimental effect on the standard of living of the people of these countries. Unable to devalue their currencies, the latter were hence compelled to resort to internal depreciation (i.e. to reduce wages and profits) in order to regain competitiveness on the world markets. In view of the above, reforms should not be limited to the periphery, but should also be extended to the core states of the euro area.

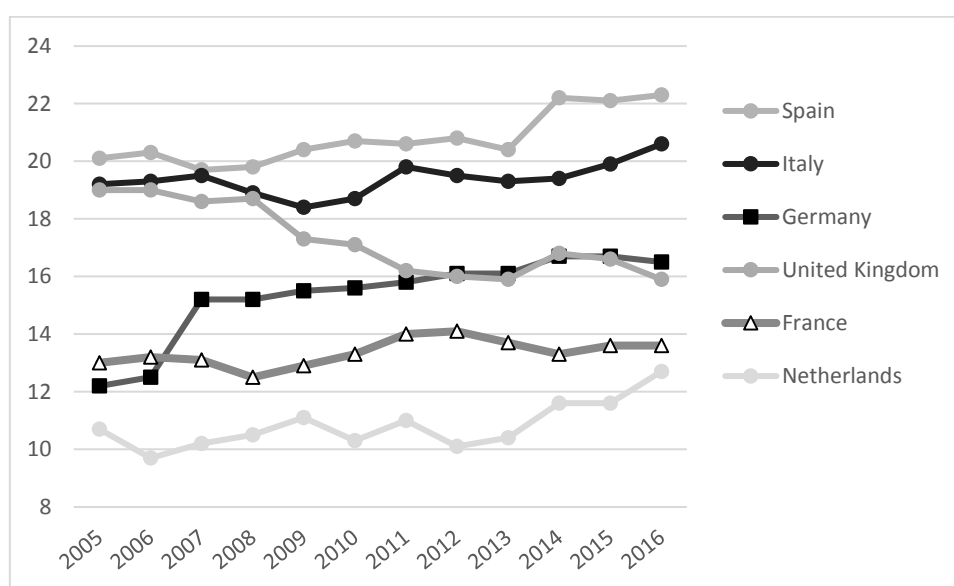
It has become fashionable to compare German and French economies and jump to the conclusion that Paris should learn lessons from Berlin. But, differences in economic and social structure, as well as in geography and history do significantly limit the potential for imitation. Due to differences in traditions between the federalist Germany and the highly centralized France, while the culture of mutual trust and compromise between social partners can be

traced back to the board of directors of businesses in the former, the culture of confrontation prevails in the latter.<sup>19</sup> It is also unlikely that the French would be able, at least in the near future, to establish their own *Mittelstand*, this fabric of family-owned small and medium-sized businesses of Germany, which could, by expanding its suppliers' contacts, take advantage of the proximity of cost-effective Central European sites.<sup>20</sup>

It should be remembered, however, that France has its own assets – geographic and demographic situation, high-quality education and training, stable banking system, relatively homogenous society – which can be exploited to accelerate growth and close the gap with Germany. Also circumstances, having allowed the German economy to reach today's high level of competitiveness, may change which, in turn, could already in the medium term lead to tensions with its partners (e.g. in the field of international finances) or the formation of bottlenecks (e.g. in infrastructures), the removal/elimination of which would inevitably result in an at least temporary reduction of Germany's competitive advantage.

**Figure 16. At risk poverty rate**

**(cut-off point: 60 % of equalised median income after social transfers)**



Eurostat, 'At-risk-of-poverty rate by poverty threshold, age and sex' *EU-SILC survey*  
<http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do> [2018-07-07]

<sup>19</sup> This attitude is far from being peculiar to the workers' organisations. The overall thrust of Macron's labour reforms, often passed through decrees to avoid the parliamentary route, is to facilitate layoffs and decentralise collective bargaining. These changes will inevitably weaken workers' rights and protection, but, if the goal had really been to copy Germany, they could have been coupled with the introduction of a German-type model for workers' participation in management and supervision of the companies they work for (*Mitbestimmung*).

<sup>20</sup> M. Dancer, op. cit.

As far as the German economy is concerned, the phenomenal increase of international competitiveness has a price: domestic poverty (the ratio of losers of the system) is growing (Figure 16), and so is anti-German sentiment, spreading in some EU member states. Both process could be mitigated or even reversed if only Germany were willing to make changes in its economic policy trajectory.

As far as the French economy is concerned, the relatively moderate reforms – which were launched during the previous presidential term, fully implemented since 2017, and aimed at reducing employers' social security contributions for their low and medium wage employees – have not yet or only to a very limited extent led to the creation of the half a million jobs, promised in return for the cost reduction in the so-called Responsibility and Solidarity Pact.<sup>21</sup> Although hundreds of thousands of new jobs have been created in the private sector since the Pact was announced, most of them do, unfortunately, offer only temporary, often fixed-term contracts, the commonest form being the very short-term (less than one month) contract. It is so, because French companies – rather than reducing their producer prices (to increase their price competitiveness) which would probably have increased the number of real (i.e. lasting) jobs – do use the government's 'gift' to restore gross margin (profitability). From the employers' point of view, the emphasis is naturally on investing to increase non-price competitiveness.<sup>22</sup>

The new president has now launched a drive to speed up reforms – not just for the labour market but also social security and education – which he, in the absence of sufficient public support, is trying to achieve by circumventing the parliament via presidential decrees. Among the reforms one of the most important happens to be the reduction of taxation on capital and wealth, in the hope of giving an impetus to job creation and domestic investment. However, as since the entry into force of the Maastricht Treaty “*all restrictions on capital movements and payments across borders*” have been removed (and are prohibited),<sup>23</sup> there is no guarantee, therefore, that savings in capital income will necessarily be invested in France.

In any case, the implementation of an overtly neoliberal policy agenda poses serious risks, regardless of whether it is successful or not. If it is successful – i.e. the majority of society accepts and adapts to the new situation – more and more people may find themselves in worsening working conditions, poverty may further increase and the French can say farewell to the relative homogeneity of their society. If it not successful – because most people reject the reforms – it may raise the possibility for political radicalization and extremism gaining further ground in France.

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<sup>21</sup> French government, 'Responsibility and solidarity pact for employment and purchasing power' *Service d'information du gouvernement* <https://www.gouvernement.fr/sites/default/files/locale/piece-jointe/2014/09/frenchresponsabilitypact-en.pdf> [2018-07-07]

<sup>22</sup> Coe-Rexecode, op. cit. p. 4

<sup>23</sup> European Commission, 'Capital movement' *Overview*, [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/capital-movements\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/capital-movements_en) [2018-07-08]

## Instead of conclusions, or briefly on Brexit

The British political and business elite has only ever been interested in European co-operation as far as it has been able to open up new markets, particularly for their large corporates, and financial services industry.<sup>24</sup> From the time that European integration schemes have moved beyond simple free trade, London has either skipped them (e.g. Schengen, Eurozone), or slowed them down (e.g. common budget or social and employment policy matters). In this respect, the French may be satisfied with the prospect of Brexit, as with UK's withdrawal such a country will leave the club that too often impeded rather than furthered the cause of the European integration.

Another element of Brexit on which the French pin their hopes is that some of the financial service providers having to leave the City may opt for transferring parts of their activities to Paris. This could affect thousands of well-paid jobs.<sup>25</sup> But, there are two problems with this argument. First, the City's role as a European and global financial hub has long preceded the UK's entry into the EU. The concentration of financial activities in London constitutes a particular ecosystem, based on network effects generating economies of scale and range. To build such an expanded ecosystem in Paris or elsewhere in the EU is only possible in the very long run.<sup>26</sup>

Second, an escape of financial services from London means that no mutually beneficial agreement could be found on Brexit negotiations. If the British economy severely loses with Brexit, then also European (and French) economy will have to suffer serious consequences, i.e. the loss of tens and hundreds of thousands of jobs e.g. in agri-food business, tourism or car manufacturing.

In France, where structural reforms started with a long delay (and with no guarantee for success), and for which the single currency proved to be too strong, putting the economy at a disadvantage on international trade, a hard Brexit would but further widen the competitiveness gap with Germany.

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<sup>24</sup> S. Lavery, 'British Business Strategy, EU Social and Employment Policy and the Emerging Politics of Brexit', *SPERI Paper*, no.39, 2017, p. 14.

<sup>25</sup> As a first step, with over 100 high quality jobs moving from the British to the French capital, Paris has already won a bid to become the new seat for the European Banking Authority – responsible for prudential regulation and supervision across the European banking sector (including conducting regular risk assessment and stress tests).

<sup>26</sup> Allard, P., 'Le « Brexit », quelles conséquences économiques pour la France?' [Brexit : what economic consequences for France?], *La Revue géopolitique* 19 April 2017, <https://www.diploweb.com/Le-Brexit-queelles-consequences-economiques-pour-la-France.html#nb2> [2017-12-02]



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